

## APPENDIX

### Internal Revenue Code:

#### SEC. 1000. IMPOSITION OF TAX.

(a) For the calendar year 1940 and each calendar year thereafter a tax, computed as provided in section 1001, shall be imposed upon the transfer during such calendar year by any individual, resident or nonresident, of property by gift. Gift taxes for the calendar years 1932-1939, inclusive, shall not be affected by the provisions of this chapter, but shall remain subject to the applicable provisions of the Revenue Act of 1932, except as such provisions are modified by legislation enacted subsequent to the Revenue Act of 1932.

(b) The tax shall apply whether the transfer is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible; \* \* \* (26 U. S. C. 1000.)

#### SEC. 1001. COMPUTATION OF TAX.

(a) The tax for each calendar year shall be an amount equal to the excess of—

(1) a tax, computed in accordance with the Rate Schedule hereinafter set forth, on the aggregate sum of the net gifts for such calendar year and for each of the preceding calendar years, over

(2) a tax, computed in accordance with the said Rate Schedule, on the aggregate sum of the net gifts for each of the preceding calendar years.

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(26 U. S. C. 1001.)

## SEC. 1003. NET GIFTS.

(a) *General Definition.*—The term “net gifts” means the total amount of gifts made during the calendar year, less the deductions provided in section 1004.

(b) *Exclusions from Gifts.*

(1) *Gifts prior to 1939.*—In the case of gifts (other than of future interests in property) made to any person by the donor during the calendar year 1938 and previous calendar years, the first \$5,000 of such gifts to such person shall not, for the purposes of subsection (a), be included in the total amount of gifts made during such year.

(2) *Gifts after 1938.*—In the case of gifts (other than gifts in trust or of future interests in property) made to any person by the donor during the calendar year 1939 and subsequent calendar years, the first \$4,000 of such gifts to such person shall not, for the purposes of subsection (a), be included in the total amount of gifts made during such year. (26 U. S. C. 1003.)

Sections 502 and 504 of the Revenue Act of 1932, c. 209, 47 Stat. 169, applicable to the tax year 1939, contain substantially the same provisions.

Treasury Regulations 108, promulgated under the Internal Revenue Code:

SEC. 86.7. *Computation of Tax.*—The first step in the determination of the tax is to ascertain the amount of the net gifts for the calendar year for which the return is being prepared. (For meaning of “net gifts,” see section 86.9.) The second step is to ascertain the aggregate sum of the net gifts for each of the preceding

calendar years, considering only gifts made after June 6, 1932. By the words "aggregate sum of the net gifts for each of the preceding calendar years" (aside from the amount of the specific exemption deductible) is meant the true and correct aggregate of such net gifts, not necessarily that returned for such years and in respect to which tax was paid. In determining the aggregate sum of the net gifts for each of the preceding calendar years, the total amount of the specific exemption claimed and allowed for such preceding years should be deducted, except that if tax is being computed for the calendar year 1943 or for any calendar year thereafter such deduction cannot exceed \$30,000, or if the tax is being computed for the calendar year 1940, 1941, or 1942 such deduction cannot exceed \$40,000. (See section 86.12.) The third step is to add to the amount of net gifts for the calendar year for which the return is being prepared the aggregate sum of the net gifts for each of the preceding calendar years. The fourth step is to compute the tax upon the total amount of net gifts (as ascertained by the third step) by use of the rate schedule in force for the calendar year for which the return is being prepared. (See sections 86.5 and 86.6.) The fifth step is to compute a tax in accordance with the same rate schedule upon the aggregate sum of net gifts for each of the preceding calendar years only. The sixth step is to subtract from the amount of tax as computed in the fourth step the amount of tax as computed in the fifth step. The amount remaining after such subtraction is the tax for the calendar year for which the return is being pre-

pared, except in the case of a return for the calendar year 1940 or 1941.

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SEC. 86.11. *Future Interests in Property*.—No part of the value of a gift of a future interest may be excluded in determining the total amount of gifts made during the calendar year. "Future interests" is a legal term, and includes reversions, remainders, and other interests or estates, whether vested or contingent, and whether or not supported by a particular interest or estate, which are limited to commence in use, possession, or enjoyment at some future date or time. The term has no reference to such contractual rights as exist in a bond, note (though bearing no interest until maturity), or in a policy of life insurance, the obligations of which are to be discharged by payment in the future. But a future interest or interests in such contractual obligations may be created by the limitations contained in a trust or other instrument of transfer employed in effecting a gift. For the valuation of future interests, see section 86.19 (g).

Treasury Regulations 79 (1936 ed.), promulgated under the Revenue Act of 1932, Articles 5 and 11, applicable to the tax year 1939, are substantially the same.